

STEVENS COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. Controls Over Cash Receipting At The Decentralized Locations Should Be Strengthened

Our review of the cash receipting procedures at the county's decentralized locations revealed the following internal control weaknesses:

- a. The county does not have written policies and procedures for cash receipting at decentralized locations.
- b. Public funds are not consistently being deposited within twenty-four hours of receipt as required by state law.
- c. Cash/check composition of the payments received is not consistently recorded on the receipts.
- d. Departments are using blank Redi-form receipts. The use of "Redi-form" receipts increases the risk that errors and irregularities could occur and not be detected in a timely manner because the assignment of numerical sequence to these receipt forms is not under the division's control. Without numeric control over receipts, there can be no assurance that all receipts are recorded and deposited.
- e. Checks are not always restrictively endorsed when received.
- f. There is inadequate segregation of duties over the billing, collection, record keeping, and deposit of receipts.
- g. There is no established responsibility for cash receipted as multiple employees have access to cash receipts.
- h. There is no review of cash receipting documents from employees independent of the cash receipting function.
- i. Expected revenues are not reconciled to daily receipts and bank deposits.
- j. Not all moneys received are receipted.

RCW 43.09.240 states:

Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him or her with the treasurer of the taxing district once every twenty-four consecutive hours.

Weak internal controls over cash receipting at decentralized locations increases the risk that theft may occur and not be detected in a timely manner, if at all.

These conditions have occurred because the county has no established written policies and procedures from which to maintain proper control over county cash receipting.

We recommend the county's management strengthen the cash receipting internal control system. This should include, but is not limited to, the following:

- a. Establish written policies and procedures for cash receipting at decentralized locations.
- b. Deposit intact all money received within twenty-four hours as required by statute.
- c. Record the cash and check composition on all receipts to ensure that all moneys recorded are properly deposited.
- d. Replace blank Redi-form receipts with official county prenumbered receipts controlled by the treasurer.
- e. Restrictively endorse all checks immediately upon receipt.
- f. Segregate the duties over the billing, collection, record keeping, and deposit of receipts so that one person does not have total control of a transaction cycle.
- g. Designate the employee or employees responsible for the control and protection of cash receipts. Limit the access to the cash receipts to these employees responsible.
- h. Regularly monitor the receipting documents to ensure that all money collected is correctly deposited and accounted for.
- i. Regularly reconcile expected revenues to money deposited into the bank by an individual independent of the cash receipting process.
- j. Receipt all money collected.

Auditee's Response

The County's accounting committee has met since your exit interview to review your comments and we will strive to correct the items mentioned by the time of your next visit. We had a good discussion of the issues and their purpose. Some items have been corrected already and we will be pushing to complete the remainder. District Court has experienced a complete turn over of key personnel and the new staff is anxious to get things straightened out. We may not be able to completely meet all items, but we will document in writing those differences and the thinking behind the final decision.

I find this kind of auditing very useful and enlightening. I want to thank you and your staff for their effort and I look forward to discussing specific solutions with you in the future. Each individual office has offered their own comments and I have either enclosed them or they have been sent under a separate letter.

2. Public Works Should Strengthen Internal Controls Over The Cash Receipting System

During our review of the Public Works Department's cash receipting internal control system, which collected in excess of \$1.3 million during 1995, we noted the following weaknesses:

- a. Cash receipts are not issued for all moneys collected.
- b. Public funds are not being deposited intact within twenty-four hours of receipt as required by law.
- c. Cash/check composition is not recorded on receipts.
- d. Departments are using blank Redi-form receipts. The use of Redi-form receipts increases the risk that errors and irregularities could occur and not be detected in a timely manner because the assignment of numerical sequence to these receipt forms is not under the division's control. Without numeric control over receipts, there can be no assurance that all receipts are recorded and deposited.
- e. Checks are not restrictively endorsed when received.
- f. Expected revenue from the permits issued are not being reconciled to receipts and deposits.
- g. Improper segregation of duties exists with the accounting manager who receives, posts, and deposits state highway payments.

RCW 43.09.240 states in part:

Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him or her with the treasurer of the taxing district once every twenty-four consecutive hours.

Without adequate controls over cash receipting and reporting, there is no assurance that all receipts are properly deposited for the benefit of the public and that the accounting records are accurately prepared. Further, weak internal controls increase the risk that theft could occur and not be detected in a timely manner, if at all.

These conditions have occurred because the Public Works Department has not implemented strong internal controls over the cash receipting system. Also, the county does not have written procedures from which to establish and maintain proper control over county cash receipting.

We recommend the county establish policies and procedures to strengthen internal controls over the cash receipting system. These procedures should include but are not limited to the following:

- a. Issue receipts for all moneys collected. Replace blank Redi-form receipts with official county prenumbered receipts controlled by the treasurer.
- b. Deposit all public funds intact within twenty-four hours of receipt.
- c. Record the cash and check composition of all receipts and reconcile to assure that all moneys collected are deposited properly.

- d. Replace blank Redi-form receipts with official county prenumbered receipts controlled by the treasurer.
- e. Restrictively endorse checks upon receipt.
- f. Regularly reconcile expected revenues to money deposited into the bank by an individual independent of the cash receipting process.
- g. Segregate the cash receipting duties of collecting, recording, and depositing.

Auditee's Response

As you know, Public Works received two audit findings on our 1995 audit. This memo explains how we will remedy the problems. The first finding deals with internal controls over the cash receipting. The problems and their solutions are listed below:

1. *PROBLEM: Cash receipts not issued for all monies collected.
SOLUTION: All cash will be receipted in at the front desk and a receipt will be generated. Checks received through the front desk by Accounting will be recorded on a log sheet that includes date, payee, description, check number, amount, date of deposit, and Treasurer's receipt number.*
2. *PROBLEM: Funds are not deposited within twenty-four hours of receipt.
SOLUTION: Deposits will be made daily if there is more than \$250.00, otherwise a weekly deposit will be made. According to Martin Kittredge and Frank Zahniser, State Auditor's Office, this was adequate.*
3. *PROBLEM: Cash/check composition is not recorded on receipts.
SOLUTION: The new receipts have a box to check indicating cash or check and we will use it.*
4. *PROBLEM: Using redi-form receipts.
SOLUTION: We have purchased and are using pre-numbered receipts.*
5. *PROBLEM: Checks are not restrictively endorsed when received.
SOLUTION: All checks will be stamped "FOR DEPOSIT ONLY" at the front desk before putting them in the cash box or giving them to accounting.*
6. *PROBLEM: Expected permit revenue not being reconciled to deposits and receipts.
SOLUTION: Utility Company Job numbers and receipt numbers will be cross-referenced. The job number will be written on the receipt and the receipt number will be written on the permit.*
7. *PROBLEM: Improper segregation of duties. Accounting Manager receives, posts and deposits State Highway payments.
SOLUTION: Checks will come to Accounting restrictively endorsed for deposit only. All CASH will be receipted at front desk.*

3. The Cash Receipting Internal Control System Should Be Improved At District Court

During our audit of the District Court's cash receipting system, which collected in excess of \$305,000 during 1995, we noted the following internal control weaknesses:

- a. There is an improper segregation of duties for the cashiers. The cashiers receipt cash, create time pays, and post adjustments to daily receipts and accounts receivable files in the District Court Information Systems (DISCIS). These are incompatible duties for the cashiers.
- b. Cashiers are given improper access to the DISCIS computer system. Cashiers have been assigned the accountant user identification which allows them special privileges of completing overrides and creating time pays and receipt reversals. This includes the ability to adjust and write off receivables entirely without a supervisor's approval.
- c. Critical audit reports are not being run for the purpose of monitoring the activities of the cashiers. The DISCIS system is capable of producing these "Audit Reports" which provide information on adjustments to receivables, write off of receivables, and other transactions.

Weak internal controls increase the risk that theft will occur and not be detected in a timely manner, if at all.

This situation continues to exist because the Court Administrator has failed to implement recommendations made during the prior audit.

We again recommend that the court establish policies and procedures over cash receipting internal controls. We further recommend the Court Administrator print, review, and retain all critical DISCIS audit reports.

Auditee's Response

I concur with the findings and the recommended corrective actions.

As of March 10, 1997 I have started printing, retaining and reviewing all critical DISCIS audit reports. In addition, I will be limiting the number of individuals who will be authorized to receipt reversals.

The ability to adjust and write off receivables must be documented in writing by the Judge or myself with a copy filed with the daily DISCIS audit reports.

I will also be limiting the number of cashiers each day to three.

4. The Building Department Should Strengthen Internal Controls Over Cash Receipting

During our review of the Building Department's cash receipting internal control system, which collected in excess of \$200,000 during 1995, we noted the following weaknesses:

- a. The departments is using blank Redi-form receipts. The use of Redi-form receipts increases the risk that errors and irregularities could occur and not be detected in a timely manner because the assignment of numerical sequence to these receipt forms is not under the division's control. Without numeric control over receipts, there can be no assurance that all receipts are recorded and deposited.
- b. Public funds are not being deposited intact within twenty-four hours of receipt as required by state law.

- c. Cash/check composition is not recorded on receipts.
- d. Checks are not restrictively endorsed when received.
- e. There is no segregation of duties. One employee is collecting moneys and accounting for the money collected which are incompatible duties.
- f. There is no independent reconciliation of expected revenues to the money deposited into the bank.

RCW 43.09.240 states:

Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him or her with the treasurer of the taxing district once every twenty four consecutive hours.

Without adequate controls over cash receipting and reporting, there is no assurance that all receipts are properly deposited for the benefit of the public and that the accounting records are accurately prepared. Further, weak internal controls increases the risk that theft could occur and not be detected in a timely manner, if at all.

These conditions have occurred because the Building Department has not implemented strong internal controls over the cash receipting system. Also, the county does not have written procedures from which to establish and maintain proper control over county cash receipting.

We recommend the county establish policies and procedures to strengthen internal controls over the cash receipting system. These procedures should include but are not limited to the following:

- a. Replace blank Redi-form receipts with official county prenumbered receipts controlled by the treasurer.
- b. Deposit all public funds intact within twenty-four hours of receipt.
- c. Record the cash and check composition of all receipts and reconcile to assure that all moneys collected are deposited properly.
- d. Restrictively endorse checks upon receipt.
- e. Segregate the cash receipting duties of collecting, recording, and depositing.
- f. Regularly reconcile expected revenues to money deposited into the bank by an individual independent of the cash receipting process.

Auditee's Response

STATE AUDITOR'S PROCESSING RECOMMENDATIONS CORRECTIVE ACTIONS TAKEN BY BUILDING DEPARTMENT

1. *Department is using blank redi-form receipts. The use of "redi-form" receipts increases the risk that errors and irregularities could occur and not be detected in a timely manner because the assignment of the numerical sequence to these receipt forms is not under the*

division's control. Without numeric control over receipts, there can be no assurance that all receipts are recorded and deposited.

A. *Mechanical Permits: When any application is received it is assigned an application log in number on both a physical log and a computer data base. Fees are receipted and the receipt # entered on log book and the computer. Monthly reports are generated that calculate fees received for the applications in a month and these are compared with a tabulation of the physical logs for the month.*

B. *NEW PROCEDURE: Will create new computer report for logged in building permit applications and do comparison of fees receipted same as for mechanicals.*

Methods can be developed to compare the reports with the actual deposit amounts made each month.

C. *NEW PROCEDURE: Receipt books are being stamped with "Building Department" stamp on each receipt to provide identification. Receipt books are numbered and dated on the outside of each book.*

2. *Public funds are not being deposited intact within 24 hours of receipt.*

Deposits have normally been made at least twice a week during times of slow permit activity and as activity increases and higher dollar amounts are receipted, the office will submit deposits as required by the Treasurer's Office to comply with county policy.

3. *Cash/check composition is not recorded on receipts.*

A review of 1996 receipts revealed only 3-4 cases where the receipt copy did not identify if payment was by check or cash. Staff checked those receipts against deposits and were able to identify composition of payment.

4. *Checks are not restrictively endorsed when received.*

It has been standard office procedure to stamp checks with Building Department stamp as soon as they are submitted. Previously, the stamp just identified the Building Department; in early 1996 the Treasurer's Office provided a stamp that also referenced the revenue deposit code number.

5. *There is no segregation of duties. One employee is collecting monies and accounting for the money collected which are incompatible duties.*

The number of office staff is small, they have to share duties.

NEW PROCEDURE: One employee normally tallies up the deposit and a second employee cross checks the totals, and initials the deposit slip.

6. *There is no independent reconciliation of expected revenues to the money deposited into the bank.*

Staff could initiate a quarterly check of actual revenue against expected revenue.

5. The County Should Strengthen Internal Controls In The County Clerk's Office

Our review of internal controls over cash receipting in the county clerk's office, which receipted in excess of \$1.4 million in 1995, disclosed the following weaknesses:

- a. The county clerk opens the mail, receipts cash to the Judicial Accounting Subsystem (JASS) Receipting System (JRS), balances end-of-day cash to the JRS, prints and signs checks, reviews exception reports, and is responsible for reconciling the bank statement. These are incompatible duties.
- b. One of the clerical people in the county clerk's office prepares and mails billings and receipts payments into the JRS. There is no oversight over this clerk's duties.
- c. There are four clerical assistants in the county clerk's office. Responsibility for control over the receipts has not been established because all of the employees have access to the office's single cash register drawer.

Professional auditing standards, regarding internal control procedures, note that segregation of duties reduces the opportunities for any person to be in a position to both perpetrate and conceal errors or irregularities in the normal course of his or her duties, e.g., assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets.

The *Budgeting, Accounting and Reporting System* (BARS) manual, Part 3, Chapter 1, page 17, under internal control standards, further states that access to resources and records is to be limited to authorized individuals, and accountability for the custody and use of resources is to be assigned and maintained.

Weak internal controls increase the risk that theft can occur and not be detected in a timely manner, if at all. Also, because of internal control weaknesses in the cash receipting function, no assurance can be given that all revenues have been properly receipted, recorded, reconciled, and deposited.

Weaknesses in internal controls exist because management has not implemented proper segregation of duties and has not established accountability over cash receipts.

We recommend that the county strengthen internal controls over cash receipting in the county clerk's office.

Auditee's Response

Refer to the response to Finding 1 in the management section.

6. The County Clerk Should Reconcile Bank And Investment Accounts And The Trust Account

Our audit of the county clerk disclosed that checking account and investment account statements have not been reconciled to the Judicial Accounting Subsystem (JASS) Trust Account Summary Report since March 1995. Further, the trust account has not been reconciled to the checking and investment account statements since the clerk took office in January 1986. In excess of \$1.3 million was deposited into the trust account during 1995.

Without a monthly reconciliation of bank and investment account statements to the trust account, there is a high risk that errors or irregularities could occur and not be prevented

or detected in a timely manner, if at all.

This condition exists because the county clerk was not able to reconcile the trust account to bank records when she took office. The conversion to the JASS system in September 1994 only resulted in falling further behind.

We recommend that the county clerk reconcile the trust checking and money market accounts monthly. We also recommend that the clerk reconcile the JASS Trust Account Summary Report monthly to the trust checking and money market accounts. We further recommend that the monthly bank reconciliations and trust account reconciliations be performed by a person other than the one writing checks and making deposits to the accounts.

Auditee's Response

Refer to the response to Finding 1 in the management section.

7. The County Should Improve Internal Controls Over Cash Receipting At The County Fair

During our audit of the county fair's cash receipting internal control system, which received in excess of \$80,000 during 1995, we noted the following weaknesses.

- a. There are no formally adopted policies and procedures relating to fair rental fees, damage deposits, or camping fees.
- b. There is no management oversight of the reconciliations between expected revenues and money deposited in the bank.
- c. Cash receipts are not consistently issued for all money received.
- d. One person is responsible for collecting, reconciling and accounting for funds from the fair's campground.
- e. Damage deposit checks are not remitted timely to the county treasurer. These checks are being held in a locked room, to be returned to the issuer.
- f. Ticket reconciliation sheets are completed in pencil, which makes them susceptible to alterations. Additionally, these reconciliation sheets do not bear evidence of supervisory review.

The *Budgeting, Accounting and Reporting Systems* (BARS) manual, Vol. 1, Part 3, Chapter 12, pages 7 and 8 says in part:

The Attorney General has stated that all funds received by county fair operations, such as allocated parimutuel funds, donations, and proceeds from the operation of the fair, must be properly deposited in the county treasury under the provisions of RCW 36.29.010 and RCW 36.29.020.

Without adequate controls over cash receipting and reporting, there is no assurance that all receipts are properly deposited for the benefit of the public. Further, weak internal controls increase the risk that theft will occur and not be detected in a timely manner, if at all.

While improvements have been made over the controls in place last year, the county fair has not implemented strong internal controls over the cash receipting system. Also, the county does not have written procedures from which to establish and maintain proper control over county cash receipting.

We again recommend the county develop and implement a system of internal accounting and administrative controls to provide assurance that the assets of the county fair are safeguarded. These controls should include, but are not limited to the following:

- a. Adopt formal policies and procedures covering fair rental fees, damage deposits, and camping fees.
- b. Implement management oversight of the reconciliations between expected revenues and money deposited in the bank. This should include proper evidence of this review, e.g., initialed and dated by supervisor performing the task.
- c. Issue cash receipts for all money received.
- d. Ensure that two employees collect, count, and receipt the money received from the campground.
- e. Deposit timely all moneys collected with the county treasurer as required.
- f. Complete reconciliation sheets in ink and ensure that evidence of supervisory review is present on each reconciliation.

Auditee's Response

Refer to the response to Finding 1 in the management section.

Auditor's Concluding Remarks

We appreciate the county's response to our audit findings. It appears that the concerns noted in the findings are being adequately addressed. We will review corrective actions taken during our next audit.

We also want to thank the county's officials and personnel for their assistance and cooperation during our audit.

STEVENS COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

Schedule Of Federal Findings

1. The County Should Comply With Federal Allowable Cost Criteria

During our review of the Public Works Department's compliance with federal highway administration's requirements, we found that the county overcharged federal highway projects \$12,878 in equipment rental costs. The department failed to properly adjust the equipment rental charges for fully depreciated equipment. Thus we have included \$12,878 in the Schedule of Questioned Costs.

OMB Circular A-87, *Cost Principles for State and Local Governments*, states that the intent of federal cost principles is that federally assisted programs bear their fair share of costs. No provision for profit or other increment above cost is intended.

The county has improperly received payment for unallowable costs by submitting reimbursement requests for costs associated with rental of fully depreciated equipment.

The county normally adjusts equipment rental costs charged to federal grants for fully depreciated equipment, but overlooked this adjustment for 1995 equipment rentals.

We recommend the county follow established procedures to assure that only allowable costs be charged for equipment rental expenses. We also recommend the county repay \$12,878 to the Department of Transportation.

Auditee's Response

*PROBLEM: Public Works overcharged federal highway projects \$12,878 in equipment rental costs.
SOLUTION: The county normally adjusts equipment costs charged to federal grants, but overlooked the adjustment for 1995. This was stated in the finding. The \$12,878 was repaid to the Department of Transportation. A note was put with the Annual Report procedures reminding me to do this adjustment annually as soon as the final grant billings for the year have been calculated.*

Auditor's Concluding Remarks

We appreciate the county's response to our audit finding. It appears that the concerns noted in the finding are being adequately addressed. We will review corrective actions taken during our next audit.

We also want to thank the county's officials and personnel for their assistance and cooperation during our audit.